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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Europe Moves Toward Single Currency

Despite the damaging effects of higher interest rates on their fragile economies, the European countries have reaffirmed their commitment to exchange rate stability—even at the expense of slower economic growth and higher unemployment—in preparation for monetary union by the end of the decade. In an effort to dampen the inflationary pressures from German unification, the Bundesbank raised its key interest rates again last month, marking the third time the central bank tightened monetary policy last year. Following the Bundesbank's move, almost every EMS member country chose to raise its own interest rates rather than devalue its currency against the mark. The only exception was the United Kingdom, whose economy is mired in recession and whose government must face a general election in less than six months. But even there, Prime Minister John Major reaffirmed that he would increase interest rates before he would devalue sterling.

Commitment to exchange rate stability marks a complete turnaround in economic policy on the part of many European countries, who, only a few years ago, would have resorted to currency devaluation as a means of sparking economic growth. However, these countries have now come to realize that the competitive advantage gained from devaluation would be offset by the negative effects on inflation. Take, for example, France. Not only has exchange rate discipline contributed to a marked slowing in France's inflation rate, but lower inflation, in turn, has improved the competitiveness of French industrial products, thereby helping to reduce the country's trade deficit to around 30 billion francs last year from almost 50 billion francs in 1990.

What is more, the leaders of all 12 European Community (EC) member countries agreed last month to sign a treaty that will move the community toward closer monetary ties by the end of the decade. One of the principal achievements of the two-day summit meeting in the Dutch town of Maastricht was the decision to create a single European currency and regional central bank no later than 1999. Although many details have yet to be worked out, the agreement satisfied Germany's insistence on tough economic standards that each country must meet in order to qualify for monetary union, as well as France and Italy's desire for a specific timetable. The three-stage timetable for European monetary union (Emu) began on July 1, 1990 when all EC members agreed to strive for closer economic cooperation and coordination. During the second stage, which will begin on January 1, 1994, the countries will start the process leading to the independence of their central banks. At the same time, the European Monetary Institute (EMI) will be created in preparation for the single central bank.

The most important issue that was settled during last month's summit meeting was the exact procedure of the move to the third and final stage to monetary union. The treaty states that the EC Commission and the EMI will decide which of the aspiring members of the currency union have met the strict economic criteria demanded by Germany. Under the broad agreement, if a majority of the EC members meet the economic criteria by the end of 1996, the community will then vote whether to approve the creation of a regional central bank and the printing of a single currency. If a majority of the countries do not fulfill the economic criteria by the end of 1996, however, a common central bank will be established on July 1, 1998 and a single currency will automatically be created in 1999 by all countries that meet the criteria, even if they number fewer than seven. Other countries will then adopt the single currency when they satisfy the conditions.

Strict Criteria For Membership

The criteria that each country must meet in order to participate in the monetary union are extremely tough. In particular, each aspiring participant must reduce its inflation rate and long-term interest rates to within 1½ percentage points and two percentage points, respectively, of those of the EC's three best performers. At the same time, each country must keep its currency within the narrow 2¼ percent band of the exchange rate mechanism of the EMS. At the moment, neither the Portuguese escudo nor the Greek drachma belong to the EMS, while both Spain and the United Kingdom are allowed to keep their currencies within a wider six percent band. What is more, no country is permitted to

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devalue its currency during the two years before joining the monetary union. On the fiscal front, all participating countries must avoid excessive budget deficits, which will be measured by two criteria: The budget deficit should not exceed three percent of GDP, and the public debt should not exceed 60 percent of GDP.

The combination of the timetable for Emu, the tough criteria for membership and the "opt-out" clause for the United Kingdom indicates that the move to monetary union will occur at multiple speeds. It is possible that very few countries will meet the requirements by 1999. Only France and Luxembourg satisfy all of the criteria at the moment, although Denmark comes close.

The Going Will Be Tough

While monetary union is expected to bring many long-term benefits to the European Community, in the short term, efforts to bring down inflation rates and slash budget deficits mean several more years of pain in a region already suffering from slow growth and high unemployment. Although many EC members have reduced substantially their inflation rates during the past several years, much further progress must be made by such countries as Spain, Italy, Portugal and Greece. The main difficulty for

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	164,476	+ 1,4[illegible]	48,235
New York City (1/15/92)	29,249	- 240	- 6,426
Commercial Paper (1/15/92)	534,155	+ 61	- 31,474

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	290,259	- 3,136	- 27,606
New York City (1/15/92)	50,936	+ 411	- 5,549

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	1,023,624	+ 3,214	- 35,841
New York City (1/15/92)	166,796	+ 2,486	- 10,234

Financial Markets

	Friday 1/24/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.89%	+ .02	- 2.44
180-Day Bills†	4.04	+ .03	- 2.46
Longest Bills†	4.20	+ .07	- 2.38
Recent Issues:			
4⅛s 1/31/94 (When Issued)	5.13	NA	
6¼s 1/31/97 (When Issued)	6.38	NA	
7¼s 11/15/01	7.22	+ .13	
8s 11/15/21	7.70	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/23/92)	6.59%	+ .03	- .47
Blue List Total ($ Million)	$1,346	+ $ 96	+$ 276
30-Day Visible Supply ($ Million)	$3,685	+ $1,004	+$2,305
Total	$5,031	+ $1,100	+$2,581
Corporates:			
Moody's Aa Composite (1/23/92)	8.58%	+ .03	- .77
30-Day Visible Supply ($ Million)	$ 209	+ $ 209	- $ 526
Stocks:			
Dow-Jones Averages:			
Industrials	3,232.79	- 32.19	+573.38
Transportation	1,362.30	- 59.60	+325.81
Utilities	214.07	+ 2.25	+ 7.14
65 Stocks	1,162.17	- 19.72	+204.40
N.Y.S.E. Composite Index	229.17	- 1.72	+ 45.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	213,487	- 65,619	+21,503

*34% Taxable equivalent 9.98%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/24/92	Week Ago
Overnight	3.94%	3.81%
1 month	4.06	4.06
3 month	4.13	4.06
6 month	4.19	4.13
1 year	4.50	4.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/24/92)	Currency Per U.S. $	Week Ago
Belgium	33.17	33.12
Canada	1.1673	1.1535
France	5.4895	5.4880
Germany	1.6100	1.6090
Italy	1213.00	1213.00
Japan	124.20	127.25
Mexico	3100.80	3099.80
Netherlands	1.8129	1.8115
South Korea	750.27	747.52
Switzerland	1.4315	1.4315
Taiwan	24.83	24.91
U.K.*	1.7810	1.7770

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (1/24/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-12.2%

most countries will be achieving both of the budget deficit criteria. Eight of the 12 EC members currently record budget deficits equivalent to more than three percent of GDP, while seven of them post public debts in excess of 60 percent of GDP. In fact, the public debts of Italy, Belgium and Ireland are larger than their entire economies.

While the going will be tough, the knowledge that no country can halt the move to monetary union should be a powerful incentive for improved economic performance among the laggards. Indeed, the day after the summit, Italy announced that it will scrap the "scala mobile", its wage index system that has hurt industrial competitiveness and fueled inflation for 46 years.

Another powerful incentive for each country to participate in monetary union will be the opportunity—through representation in the single central bank—to have a voice in monetary policy. As it stands now, monetary policy for the region is virtually decided by the Bundesbank alone. While price stability will be the overriding goal of the single central bank, economic conditions in all of the countries participating in monetary union, not just in Germany, will be considered. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/22/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	271.190	- .714	+32.006
Loans to Depository Inst.	.214	+ .157	- 1.140
Float	.821	- .163	- .061
Total Reserve Bank Credit	306.959	- .698	+25.468
Treasury Deposits with Federal Reserve Banks	6.072	+ .618	+ .578
Currency in Circulation	301.959	- 1.888	+18.254
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	262.310	+ 3.412	+12.424
	1/22/92		
Member Bank Reserves:			
Total Reserves Held	55.839	- 1.320	- 5.091
Excess (Deficiency)	.935	- .216	- .002
Net Free Reserves	.799	+ .168	+ .718
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (1/13/92)	903.5	+ 11.0	+ 8.8
M2 (1/13/92)	3,422.3	+ 3.1	+ 2.7
M3 (1/13/92)	4,171.0	+ 2.1	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/24/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.77%	3.88%	3.99%
* Federal Agencies	3.90	4.10	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.24	4.32	4.55
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.06	4.10	4.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.92%	Feb.	4.00%
15- 29 days	3.93	Mar.	4.00
30- 59 days	4.00	Apr.	3.98
60- 89 days	4.05	May	3.98
90-179 days	4.12	Jun.	3.97
180-239 days	4.13	Jul.	3.97
240-270 days	4.13		

‡ Industrial Paper–Prime			
30- 89 days	4.10%	†Federal Funds	
90-120 days	4.10	Effective Rate	3.88%

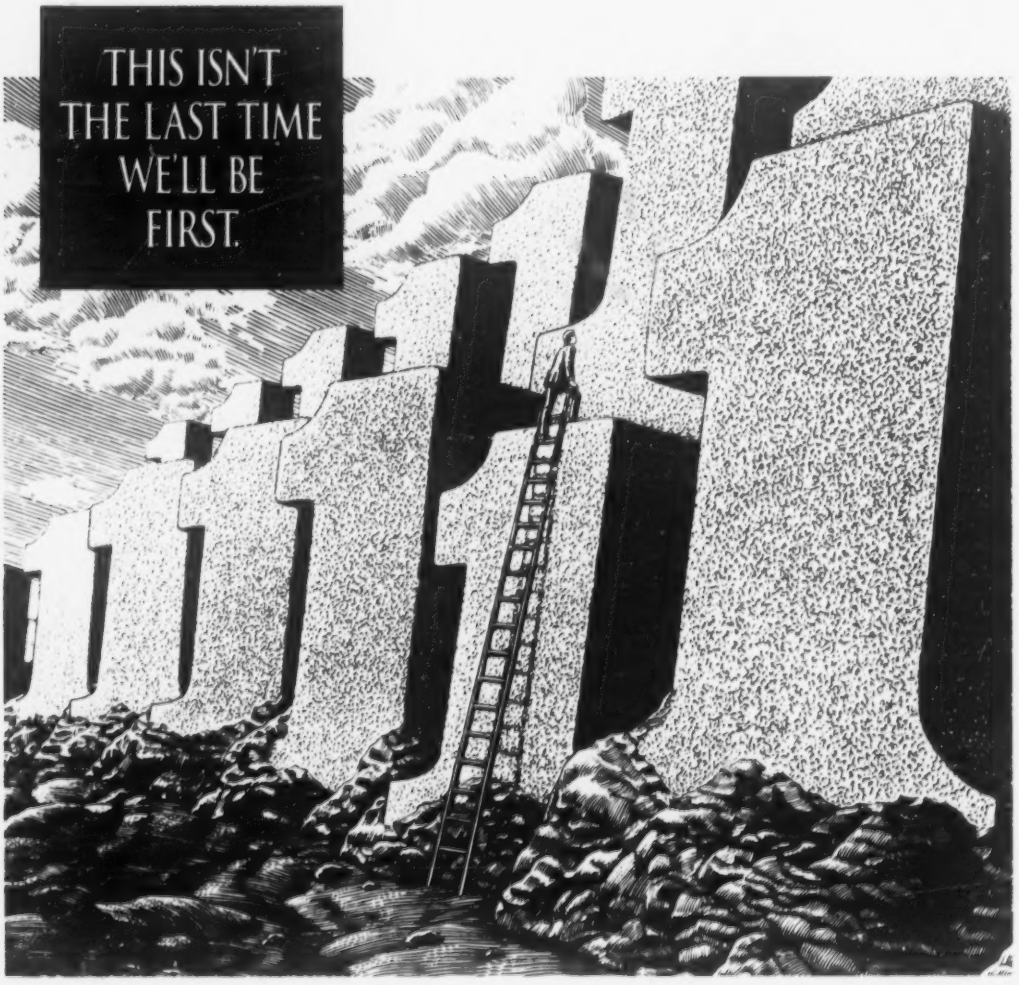
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,709	$ 5,653	$ 5,570
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,863	$ 4,841	$ 4,903
Percent Change, Annual Rate	3rd Q'91	1.8	1.4	0.2
Change in Consumer Prices*	Dec '91 n	3.6%	4.8%	3.6%
Change in CHEM Cost of Living Index*	Dec '91 n	2.4%	6.0%	4.8%
Change in Producer Prices*	Dec '91	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Dec '91	116,728	116,772	117,476
Unemployment as % of Civilian Labor Force †	Dec '91	7.1%	6.9%	6.1%
Personal Income*	Nov '91	$ 4,879	$ 4,857	$ 4,764r
Leading Indicators Composite Index (1967=100) †	Nov '91	145.1	145.5	139.7
Industrial Production Index (1977=100) †	Dec '91 n	107.8	108.0r	107.2
Net Change in Consumer Installment Credit †	Nov '91	$ 0.03	$ 1.67	$ 0.98
U.S. Merchandise Trade Balance †	Nov '91 n	- $ 3.57	- $ 6.32r	- $ 9.54
Plant and Equipment Expenditures*	1st Q'92	$ 563 3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Dec '91 n	1,103	1,075r	971
New Construction Expenditures*	Nov '91	$ 406.3	$ 409.4	$ 431.4
Total Business Inventories †	Nov '91 n	$ 814.3	$ 813.0r	$ 830.9r
Total Business Sales †	Nov '91 n	$ 543.6	$ 543.0r	$ 546.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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The new holding company is Chemical Banking Corporation, with $119 billion in assets and $7.3 billion in shareholders' equity. Few competitors exceed our capital strength, which we will continue to build. Our financial strength and staying power are beyond doubt.

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The new Chemical Banking Corporation is already first in key regional, national and global markets.

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